# Consumer Alert

***Q&A on Credit Scoring and how insurers use credit information***

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Many personal auto and homeowners insurance companies look at consumer credit information and use insurance credit scores to decide:

- Whether to issue or renew an insurance policy
- How much premium to charge for insurance

The following information will help you understand how insurance companies use your credit information and how this business practice affects the cost of your insurance.

**What is "Credit Scoring"?**
A credit score is a number insurance companies assign consumers based on their credit history, such as bill paying history, the number and type of accounts they have, late payments, collection actions, outstanding debt and the age of their accounts.

**Can an insurance company look at my credit information without my permission?**
Yes.  Both the federal and state Fair Credit Reporting Acts (FCRA), say that insurance companies may look at credit information without your permission for underwriting purposes.  The federal law can be found at www.ftc.gov. The state law is RCW Chapter 19.182 and can be found at www.leg.wa.gov/rcw  Washington's new credit scoring law gives you certain rights and governs the use of credit information by insurers.

**Why do insurance companies use credit information?**
Some insurance companies have shown that information in a credit report can predict which consumers are likely to file insurance claims. They believe that consumers who are more likely to file claim should pay more for their insurance.

**How do I know if an insurance company is looking at my credit?**
Ask your insurance agent or company if they use credit information for underwriting and rating. If credit history is used for underwriting, ask how it affects your eligibility for coverage. If credit history is used for rating, ask how it affects your insurance premium. Finally, you should ask if they will check the credit history of other people insured on your policy, such as family members, and how they will affect your policy.

**If I don't have a credit history, will it affect my insurance purchase?**
Possibly. Effective June 30, 2003, insurers are restricted from increasing your rates if you don't have a credit history. Those restrictions apply unless the insurer proves an increase is warranted for people of your age and sex, and who live in your general neighborhood. Because of this law, we anticipate that fewer insurers will penalize you because you don't have a credit history.

There is something you can do. Sometimes an insurer will not be able to find a meaningful credit history for you. If you think you have a credit history but the insurer cannot find it, make sure your agent or insurance company has your correct name, address, social security number and birth date.

**How do insurers use credit history?**
Many personal auto and homeowners insurance companies look at consumer credit information to decide:

- Underwriting - Whether to issue or renew an insurance policy
- Rating - How much premium to charge for the insurance coverage

***Underwriting.*** Underwriting is a process where an insurance company gathers information and decides whether or not they will insure you.

Effective Jan. 1, 2003, insurance companies cannot use your credit history to cancel or non-renew your current insurance policy. In addition, they cannot deny you coverage based on these factors:

- An absence of credit history
- Number of credit inquiries
- Purchase of a vehicle or house that increases the amount of debt you have

- Your use of a particular type of credit card, debit card or charge card (such as a department store or gas credit card)
- Total amount of available credit

If you are applying for new coverage, the insurance company cannot use just your credit score. It must also consider other substantive factors when deciding whether or not to offer your coverage.

***Rating.*** Rating is a process that determines how much you pay for insurance. Many insurers charge higher premiums for negative entries on a credit history.

Effective June 30, 2003, your insurance rates cannot be based on these factors:
- An absence of credit history
- Number of credit inquiries
- The initial purchase of a new vehicle or house that increases the amount of debt you have
- Your use of a particular type of credit card, debit card or charge card (such as a department store or gas credit card)
- Total amount of available credit

**What kind of credit information do insurance companies use?**
Most companies that use credit information use an "insurance credit score." An insurance credit score is calculated using information about your credit history. Many insurance credit scores are weighted with recent credit history weighing more heavily than old credit history. The factors used in many scoring models are:
- ***Public records*** (such as bankruptcy, collections, foreclosures, liens, and charge-offs). Public records generally lower your insurance credit score.
- ***Past payment history*** (the number and frequency of late payments and the days between due date and late payment date). If you have not paid your bills on time, your insurance score will go down.
- ***Length of credit history*** (the amount of time you've been in the credit system). A longer credit history tends to raise your insurance credit score.

- ***Number of open lines of credit*** (including the number of major credit cards, department store credit cards). Having too much credit tends to lower your score. However, it generally is not a good idea to cancel a credit account that you have had for a long time. A long credit history helps your score.
- ***Outstanding debt*** (how much you owe compared to your total available credit). Try to keep your debt to credit ratio low, since too much outstanding debt tends to lower your score.

Insurance credit scores are not uniform among insurance companies. Insurance companies have different views on which factors are more important based on their experience and business practices. For example, one company might feel that public records are more important than past payment history. Another company might take the opposite view. How much weight a company gives each of the factors determines, to a large extent, your insurance score with that company.

**What is a good insurance credit score?**
There is no single answer to this question. Generally, good insurance credit score will translate to lower premiums. However, insurance companies use different scoring calculations, so different insurers will likely give you a different score. That's why it pays to shop around on a regular basis to make sure your premiums are competitive. And shopping for insurance will not affect your credit score.

**Is my premium based entirely on my insurance credit score?**
No. Both auto and homeowners premium are based on factors other than credit history. Your auto insurance premium is based on factors such as your driving record, the type of car you drive, and where you live. Your homeowners premium is based on factors such as where you live and the cost to replace your home. Credit history is only one of a number of factors insurers use to rate your policy.

**Must an agent or company tell me what my insurance credit score is?**
No. In fact, the agent or company underwriter might not even know your score. Instead, all your agent or underwriter may know is that your score qualifies you for a particular rate or company within the insurance group.

Even if you know your insurance credit score, it may not be useful to you. Your insurance credit score is a "snapshop in time," and a significant change in your credit activity or a creditor's report can change your score.

**If I don't know my score, and my score varies from company to company and day to day, how will I know if my credit history affects my insurance purchases?**
Ask your insurance agent or company. The federal FCRA requires an insurance company to tell you if they take an "adverse action" because of your credit information. FCRA defines "adverse action" to include denying or canceling coverage, increasing premiums, or changing the terms, coverage or amount of coverage in a way that harms the consumer.

Effective Jan. 1, 2003, Washington state law requires specific notice in clear and concise language if an insurer takes one of the following actions based on credit history:

- Cancels, denies or non-renews coverage
- Gives more limited coverage
- Limits benefits, such as eligibility for dividends
- Does not offer the best rate available
- Adds a premium surcharge or does not offer a discount

If your insurer takes an adverse action due to your credit history, it must also tell you the name of the national credit bureau that supplied the information. You are also entitled to a free copy of your credit report from the credit bureau that supplied the credit information.

Federal law says that you have a right to a free copy of your credit report if you've been denied credit or insurance, if you are on welfare, unemployed, or if you are a victim of identity theft. Otherwise, you may have to pay a small fee (the current fee is $9 for each report). Most consumer groups suggest you get a copy of your credit report once a year and review it for errors.

**What can I do if there is incorrect information in my credit report?**
***Tell the credit bureau.*** If you report an error, the credit bureau must investigate the error and get back to you within 30 days. The credit

bureau will contact whoever reported the information. Credit information is often reported by banks, credit card companies, collection agencies or a court clerk. If the investigation shows the information is wrong or if there is no proof it's true, the credit bureau must correct your credit report.

You can ask the credit bureau to send a notice of the correction to any creditor or insurer that has checked your file in the past six months. Once the error is corrected, it's a good idea to get a new copy of your credit report several months later to make sure the wrong information has not been reported again. You also should get a copy of your credit report from the other national credit bureaus, which are listed below. If you correct an error on one report, it will not "fix" incorrect information on the other reports.

If the information in your credit report is correct, the credit bureau will not change the information in your credit report. However, the FCRA lets you file a 100-word statement explaining your side of the story, and the credit bureau must include your statement with your credit information each time they send it out. Make sure your insurance company has a copy of your statement, and ask if it will take your statement into account.

The three national credit bureaus are:

- Equifax: www.credit.equifax.com or 800-685-1111
- Experian: www.experian.com or 888-397-3742
- Trans Union: www.transunion.com or 800-888-4213

***Tell your insurance company.*** Don't wait until the credit bureau investigates the errors to contact your insurer. Tell your insurance company right away and ask if the errors will make a difference in your insurance.

If the errors are big, tell your insurer that you are disputing the information and ask if they will wait to use your credit information until the errors are corrected. Small errors may not have much effect on your credit score. But if the errors are big, if can make a big difference in your premium.

**How can I improve my credit score if I have been adversely affected?**
You must find out what attributes of your credit history were used to calculate your credit score. An "attribute" is a piece of your credit history, such as filing bankruptcy or paying bills late. Companies that develop insurance credit scores, such as Fair Isaac and Choice Point, provide insurance companies with up to four factors that have had a negative impact on your insurance credit score. The agent or company should be able to tell you which items in your credit history had the most impact on your score.

***Potential ways to improve your credit score:***

- Don't try to "quick fix" your credit overnight. You could end up hurting your score. For example, your score may go down if you cancel a credit card that you have had a long time.
- Don't pay someone to "fix" your credit history. Some credit repair firms promise, for a fee, to get accurate information taken out of your credit report. Accurate information cannot be deleted from your credit report. Some credit repair firms promise to "fix" your credit report by challenging information in it. They charge you a fee to do that. This is something you can do for yourself without paying the fee.
- Create a plan to improve your credit over time. Pay your bills on time. Pay at least the minimum balance due, on time, every month. If you cannot make a payment, talk to your creditor. Work to reduce the amount you owe, especially on revolving debt accounts like credit cards.
- Keep at it. Your credit history will improve over time if you make changes now and continue to improve. If you manage your credit better, your credit score will improve over time.

**Where can I go for help with credit problems?**
If you cannot resolve your credit problems alone, a non-profit credit counseling organization may be able to help you. Non-profit counseling programs are often operated by churches, universities, military bases, credit unions and housing authorities. You can also check with a local bank or consumer-protection office to see if they have a list of reputable, low-cost financial counseling services.

**Will my credit history haunt me forever?**

Probably not. Credit history is just that – history. Once you find out what attributes of your credit history are affecting your credit score, you can work to improve your record. If your premiums are high because of your credit history and you take steps to improve your record, you should:

- Ask your insurance company to re-evaluate your insurance credit score at renewal
- Shop for new insurance at renewal to see if better prices are available

**Does using credit information penalize minorities or low-income consumers?**

We do not know. Statistical studies have not conclusively determined whether insurance credit scoring disproportionately affects minorities or the poor. Insurance regulators nationwide are currently examining this issue.

Consumer groups worry that insurance credit scores will be lower for low income and minority groups. Consumer groups also point to the fact that most insurers and insurance credit scoring model vendors will not make their insurance scoring models public so consumers can see how they use credit data to calculate a score.

**Where can I get more information?**

- Contact our Consumer Assistance Toll-Free Hotline at 800-562-6900.
- Ask your insurance agent or company if they have educational material that explains how they use credit.
- Contact the Federal Trade Commission for information about the FCRA and consumer brochures on credit. Call 877-382-4357 or visit their website at www.ftc.gov
- Choice Point offers a service which allows consumers to see their insurance credit scores. The service costs $12.95 and is available at www.choicetrust.com
- Search the internet, but be sure the information you find explains how insurers (not lenders) use credit information.
- Contact your local Cooperative Extension Service for information about improving your credit history.

**Final points to consider**

- There is a good chance your current or prospective insurer is looking at your credit.
- Ask your insurance agent or company if they use credit information, how they use it and whether it affects your premium.
- Get a copy of your credit report from each of the three national credit bureaus and correct any errors. Tell your insurance agent and company about any errors, and tell them your side of the story.
- Improve your credit history if you have had past credit problems. Ask your agent or company for the primary reasons (factors) that your insurance credit score is low and work to improve those pieces of your credit history. If you are paying higher premiums because of your credit history, ask your insurer to re-evaluate you when you improve your credit. If your insurer will not agree to re-evaluate you, it is probably time to “shop around.”
- Shop around for insurance. Insurance companies use credit information in different ways, so your rates can vary dramatically from company to company.